

Bank of England

Monetary Policy Summary and
minutes of the Monetary Policy
Committee meeting ending on
31 July 2024

1 August 2024

These are the minutes of the Monetary Policy Committee meeting ending on 31 July 2024.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/august-2024>.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 18 September will be published on 19 September 2024.

Monetary Policy Summary, August 2024

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 31 July 2024, the MPC voted by a majority of 5–4 to reduce Bank Rate by 0.25 percentage points, to 5%. Four members preferred to maintain Bank Rate at 5.25%.

The Committee has published an updated set of projections for activity and inflation in the accompanying August Monetary Policy Report.

Twelve-month CPI inflation was at the MPC's 2% target in both May and June. CPI inflation is expected to increase to around 2¾% in the second half of this year, as declines in energy prices last year fall out of the annual comparison, revealing more clearly the prevailing persistence of domestic inflationary pressures. Private sector regular average weekly earnings growth has fallen to 5.6% in the three months to May, and services consumer price inflation has declined to 5.7% in June. GDP has picked up quite sharply so far this year, but underlying momentum appears weaker.

The Committee's framework for assessing the medium-term outlook for inflation distinguishes between first and second-round effects. The MPC has been focused on second-round effects that capture more persistent inflationary pressures. The Committee continues to monitor the accumulation of evidence from a broad range of indicators.

The Committee expects the fall in headline inflation, and normalisation in many indicators of inflation expectations, to continue to feed through to weaker pay and price-setting dynamics. A margin of slack should emerge in the economy as GDP falls below potential and the labour market eases further. Domestic inflationary persistence is expected to fade away over the next few years, owing to the restrictive stance of monetary policy.

However, there is a risk that inflationary pressures from second-round effects will prove more enduring in the medium term. A stronger-than-expected path for demand, and structural factors such as a higher equilibrium rate of unemployment, could affect domestic wage and price-setting more persistently. Furthermore, the degree of restrictiveness of monetary policy could be less than embodied in the Committee's current assessment.

In balancing these considerations, at this meeting, the Committee voted to reduce Bank Rate to 5%. It is now appropriate to reduce slightly the degree of policy restrictiveness. The impact

from past external shocks has abated and there has been some progress in moderating risks of persistence in inflation. Although GDP has been stronger than expected, the restrictive stance of monetary policy continues to weigh on activity in the real economy, leading to a looser labour market and bearing down on inflationary pressures.

Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee continues to monitor closely the risks of inflation persistence and will decide the appropriate degree of monetary policy restrictiveness at each meeting.

Minutes of the Monetary Policy Committee meeting ending on 31 July 2024

1. Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices. The latest data on these topics were set out in the accompanying [August 2024 Monetary Policy Report](#).
2. Global activity was projected to have expanded steadily over recent quarters. US GDP had grown by 0.7% in 2024 Q2, somewhat stronger than had been expected. Euro-area GDP had grown by 0.3% in Q2, in line with expectations. Recent outturns for consumer price inflation in the United States and the euro area suggested some further normalisation toward central banks' targets.
3. The Committee discussed developments in internationally traded goods prices, noting the presence of a range of risks that could be material for the UK inflation outlook. Although Chinese export prices had recently been higher than expected, they could pose a downside risk if past weakness were to re-emerge. That said, the effects on UK inflation would only be significant if competitive effects also generated spillovers to the price inflation of traded goods exported by other countries. Set against that, there were upside risks to goods prices from the risk of greater trade fragmentation and increased trade restrictions. A broadening of recent disruption to shipping routes could affect the supply of goods whose production was concentrated in particular regions. Upside risks to commodity prices from geopolitical developments, including from events in the Middle East, also remained.
4. The level of sterling was also likely to be an important driver of UK import prices. The effective exchange rate had appreciated further since the Committee's previous meeting, such that it was over 3% higher than its level at the start of this year. The appreciation was likely to weigh on the outlook for UK import prices and inflation, all else equal, but the extent of pass-through was likely to depend on the underlying driver of the appreciation.
5. The market-implied path for Bank Rate was relatively little changed since the Committee's June meeting and the path that had been assumed in the May Monetary Policy Report. In the Bank's latest Market Participants Survey (MaPS), all respondents had expected the next move in Bank Rate to be downwards. Expectations on the timing of that move were finely balanced with a significant majority of respondents expecting the reduction to occur either at this MPC meeting or the subsequent one in September. That was consistent with market pricing for this meeting, which implied a close-to-evens probability of a 25 basis point reduction in Bank Rate. The median profile for Bank Rate in the August MaPS

implied a cumulative 50 basis point reduction by the end of this year, unchanged from the June survey and also broadly in line with market pricing.

6. Turning to UK activity, GDP had grown by 0.7% in 2024 Q1, with that strength appearing to have continued into Q2. Growth in the first half of the year had been stronger than expected at the time of the May Report. Business surveys had continued to point to underlying growth of around 0.3% per quarter, somewhat weaker than headline GDP growth.

7. The Committee discussed the risks around the outlook for domestic demand, which were judged to be skewed to the upside. Households' real income growth had continued to be supported by the reversal of the previous energy shock, although this had appeared to raise savings more than consumption so far. While flat retail sales volumes pointed to continued elevated savings, improvements in indicators such as the GfK major purchases balance suggested a risk that consumption growth could strengthen by more than had been expected in the projection in the August Report. As set out in Box C in the August Report, there was a risk that the impact of higher interest rates on spending had been more modest and would occur earlier than was expected in the Committee's latest modal projections, suggesting upside risks to the outlook for spending. Set against that, corporate insolvency rates had continued to rise, although they had remained well below their historical averages.

8. Twelve-month CPI inflation had fallen back to the MPC's 2% target in May and had remained at that level in June. Inflation was expected to increase to around 2¾% over the second half of this year, owing largely to a smaller expected drag from domestic energy bills.

9. The Committee discussed the latest accumulated evidence on the degree of persistence in pay growth and domestic price inflation. Annual private sector regular average weekly earnings growth had continued to fall back, albeit to a still elevated level, in line with the projection at the time of the May Report. The continued downward trajectory in pay growth had been driven by the normalisation of short-term inflation expectations and some further easing in labour market tightness, although pay growth had remained in excess of rates explained by Bank models. Services consumer price inflation had declined in 2024 Q2 but had remained elevated and had been higher than expected at the time of the May Report.

The immediate policy decision

10. The Monetary Policy Committee sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

11. The Committee had been briefed on the Government's 29 July statement on immediate public spending pressures. The Government had announced that any changes in the stance

of fiscal policy would be set out in the Budget on 30 October. These would be incorporated in the November Monetary Policy Report projections.

12. Twelve-month CPI inflation had returned to the MPC's 2% target in May and June. CPI inflation was expected to increase to around 2¾% in the second half of this year, as declines in energy prices last year fell out of the annual comparison, revealing more clearly the prevailing persistence of domestic inflationary pressures.

13. The Committee's framework for assessing the medium-term outlook for inflation distinguished between first and second-round effects. The MPC was focused on second-round effects that captured more persistent inflationary pressures. The Committee noted that there were several potential paths for inflation.

14. The Committee expected the fall in headline inflation, and normalisation in many indicators of inflation expectations, to continue to feed through to weaker pay and price-setting dynamics. A margin of slack should emerge in the economy as GDP fell below potential and the labour market eased further. Domestic inflationary persistence was expected to fade away over the next few years, owing to the restrictive stance of monetary policy. The modal projection in the August Monetary Policy Report was one representation of this. Conditioned on the market-implied path of interest rates, CPI inflation was projected to fall back to 1.7% in two years' time and to 1.5% in three years.

15. However, there was a risk that inflationary pressures from second-round effects would prove more enduring in the medium term. A stronger-than-expected path for demand, and structural factors such as a higher medium-term equilibrium rate of unemployment, could affect domestic wage and price-setting more persistently. Furthermore, the degree of restrictiveness of monetary policy could be less than embodied in the Committee's current assessment. This was reflected in the risks around the August Report modal inflation projection being skewed somewhat to the upside throughout the forecast period. Mean CPI inflation was projected to be 2.0% and 1.8% at the two and three-year horizons respectively.

16. The Committee also continued to monitor the accumulation of evidence from a broad range of indicators.

17. There remained considerable uncertainty around statistics derived from the ONS Labour Force Survey, making it more difficult to gauge the underlying state of labour market activity. Based on a broad set of indicators, the MPC judged that the labour market continued to loosen but that it remained relatively tight by historical standards.

18. Private sector regular average weekly earnings growth had fallen to 5.6% in the three months to May, in line with expectations in the May Report, and broadly in line with alternative indicators of wage growth.

19. Services consumer price inflation had been 5.7% in June, unchanged from May and stronger than had been expected in the May Report, but broadly as expected since the MPC's previous meeting and lower than earlier in the year.

20. Following weakness in the second half of 2023, UK GDP growth had picked up sharply around the turn of the year and has been stronger than expected in the May Report. Business surveys had continued to point to weaker underlying GDP growth of around 0.3% per quarter.

21. Different members placed different probabilities on the extent to which the current restrictive policy stance would lead inflationary pressures to continue to unwind, or whether adverse inflationary dynamics would prove more enduring, possibly as a result of more structural factors or greater momentum in demand. The Committee recognised that the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced from its current level.

22. Five members preferred a 0.25 percentage point reduction in Bank Rate at this meeting. It was appropriate to reduce slightly the degree of policy restrictiveness. The impact from past external shocks had abated and there had been some progress in moderating risks of persistence in inflation. There had been a normalisation in inflation expectations, and forward-looking indicators such as the Decision Maker Panel survey pointed to waning wage and price pressures. The recent strength in services inflation had in part continued to reflect more volatile components of this series. Although GDP had been stronger than expected, the restrictive stance of monetary policy continued to weigh on activity in the real economy, leading to a looser labour market and bearing down on inflationary pressures. For some of these members, the decision was finely balanced. Inflationary persistence had not yet conclusively dissipated, and there remained some upside risks to the outlook.

23. Four members preferred to maintain Bank Rate at 5.25% at this meeting. The upside news to services inflation and GDP outturns relative to the May Report, along with continued elevated wage growth, suggested that second-round effects were having a greater impact on wage and price-setting behaviour in the economy beyond what was embodied in the modal forecast. External factors, such as international food and energy prices, had played the major role in reducing headline inflation to date. By contrast, underlying domestic inflationary pressures appeared more entrenched. These members thought that there was a greater risk of more enduring structural shifts, such as a rise in the medium-term equilibrium rate of unemployment, a fall in potential growth and a rise in the long-run neutral interest rate, contributing to domestic inflationary persistence. They preferred to maintain the current level of Bank Rate until there was stronger evidence that these upside pressures would not materialise.

24. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated further. The Committee continued to monitor closely the risks of inflation persistence and would decide the appropriate degree of monetary policy restrictiveness at each meeting.

25. The Chair invited the Committee to vote on the proposition that:

Bank Rate should be reduced by 0.25 percentage points, to 5%.

26. Five members (Andrew Bailey, Sarah Breeden, Swati Dhingra, Clare Lombardelli and Dave Ramsden) voted in favour of the proposition. Four members (Megan Greene, Jonathan Haskel, Catherine L Mann and Huw Pill) voted against the proposition, preferring to maintain Bank Rate at 5.25%.

Operational considerations

27. On 31 July, the stock of UK government bonds held for monetary policy purposes was £690 billion.

28. As discussed in Box A in the August Monetary Policy Report, the Committee would vote on the target for the reduction in the stock of UK government bonds held for monetary policy purposes over the 12-month period from October 2024 to September 2025 at its September 2024 meeting.

29. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Swati Dhingra
Megan Greene
Jonathan Haskel
Clare Lombardelli
Catherine L Mann
Huw Pill
Dave Ramsden

Sam Beckett was present as the Treasury representative.

David Roberts was present on 23 and 29 July, and Jonathan Bewes on 29 July, as observers for the purpose of exercising oversight functions in their roles as members of the Bank's Court of Directors.

30. On behalf of the Committee, the Chair expressed his appreciation to Jonathan Haskel for his contributions to the work of the MPC since becoming a member in 2018.